

ILLINOIS COMMERCE COMMISSION
DOCKET NOS. 02-0798/03-0008/03-0009 (Consolidated)

SURREBUTTAL TESTIMONY

OF

PHILIP B. DIFANI, JR.

Submitted On Behalf

Of

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY,

d/b/a AmerenCIPS,

and

UNION ELECTRIC COMPANY,

d/b/a AmerenUE

June 2003

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Q. Please state your name and business address.

A. My name is Philip B. Difani, Jr. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. Are you the same Philip B. Difani, Jr., who filed direct and rebuttal testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to address, on behalf of Central Illinois Public Service Company, d/b/a AmerenCIPS (“AmerenCIPS”), and Union Electric Company, d/b/a AmerenUE (“AmerenUE”) (collectively referred to herein as the “Company”), certain portions of the rebuttal testimony of Illinois Commerce Commission (“Commission”) Staff (“Staff”) witnesses Peter Lazare and

23 Charles Iannello, and Citizen Utility Board ("CUB") witness Richard Galligan based
24 upon my review of their rebuttal testimony in this case.

25 **Q. Mr. Lazare and Mr. Galligan both refer to a 1989 version of a**
26 **NARUC manual and suggest that it supersedes the 1981 manual which you have**
27 **cited. Please respond.**

28 **A.** I am aware of the 1989 publication used and referenced in this case by
29 both Mr. Lazare and Mr. Galligan. The 1989 manual is a practice guide prepared by the
30 NARUC staff subcommittee on gas. While the earlier manual was approved by the full
31 NARUC Gas Committee and the full Executive Committee, nothing in the 1989 guide
32 suggests that it supersedes, or was intended to supersede, the 1981 publication.

33 In addition, I have reviewed several reference manuals written by
34 well-known and respected authors on rate design, such as James C. Bonbright's
35 Principles of Public Utility Rates, Charles F. Phillips, Jr.'s The Regulation of Public
36 Utilities, and Russell E. Caywood's Electric Utility Rate Economics, all of which discuss
37 the allocation methodologies of non-coincident peak ("NCP") and average and excess
38 ("A&E"). None of these sources discuss the average and peak ("A&P") methodology
39 recommended by Staff. I believe the NCP and the A&E methodologies have withstood
40 the test of time, and are much more appropriate in the allocation of certain transmission
41 and distribution costs.

42 **Q. Mr. Lazare then points out that transmission systems are shaped by**
43 **the collective peak demand of all classes, not the peak demands of individual classes.**
44 **In this manner he suggests that the coincident peak is a more appropriate**
45 **methodology than using non-coincident peaks. Please comment.**

46 **A.** Rate design experts have utilized both coincident peak ("CP") and
 47 non-coincident peak ("NCP") allocation methods, and leave the decision as to which is
 48 more appropriate up to the individual circumstances. The use of the CP in the A&P
 49 allocation method produces an inequitable allocation of costs to the Company's other
 50 classes. This inequitable allocation results from the demand associated with interruptible
 51 customers not being included in the calculation of class peak demands. On the other
 52 hand, the use of the NCP in the A&E method will appropriately allocate costs to all
 53 classes including the large-use interruptible customers as their demands are included in
 54 the calculation of class peak demands. The use of the A&P method will only allocate the
 55 representative share of the interruptible customers' average demand and none of their
 56 peak demand. In effect, the use of the A&P method unjustly shifts costs from the
 57 interruptible class to the Company's other classes.

58 **Q.** **Additionally, on page 5 of his rebuttal testimony, Mr. Lazare argues**
 59 **that the A&P methodology does not rely on double counting of average demands as**
 60 **you suggested in your rebuttal testimony. Please respond.**

61 **A.** Use of some diagrams may help to explain the double counting point.
 62 Figure 1, below, shows the cross-section of an empty gas main:

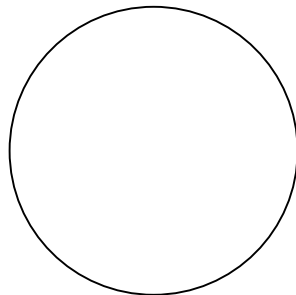
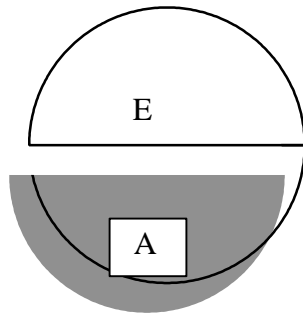


Figure 1.

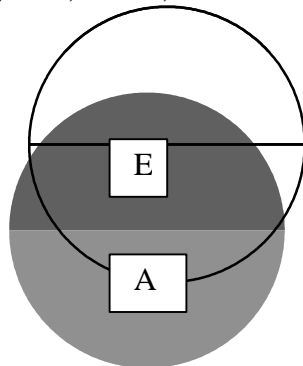
67 Figure 2, below, displays a hypothetical average demand on a main, where
68 the shaded area is "A" or the average demand:



69 Figure 2.

70 The unshaded area in Figure 2 is the remaining capacity in the gas main available to loads
71 in excess of the average demand.

72 Figure 3, below, shows a hypothetical main at peak:



73 Figure 3.

74 The excess ("E") is the area above our originally shaded area A. Together, the average
75 demand, plus the excess above the average demand (i.e., $A + E$) equals the peak ("P").
76 (I do not mean to suggest by this diagram that the ratio of average and excess is actually
77 50/50. I offer this only for illustrative purposes.)

78 The A&E methodology allocates A and E separately. The A&P
79 methodology allocates A, and then P. P, as we have seen, equals A+E. Thus, under the
80 A&P methodology, the average demand (A) is allocated twice, first on its own and then
81 as a component of the peak (P). Mr. Lazare does not seem to perceive this. For instance,
82 in his direct testimony, Mr. Lazare explains on page 7 that the A&P allocator:

83 ". . . is also a two part allocator that allocates average system
84 demands one way and the difference between the system peak and
85 the system average demand in another way."

86 Mr. Lazare's description quoted above is a description of the A&E methodology
87 (ignoring differences between using CP and NCP), not the A&P methodology that he
88 suggests. Using his description above and the NCP would, in fact, be in accordance with
89 the way I described the A&E methodology on page 8 of my direct testimony.

90 **Q. On pages 6 and 7 of his rebuttal testimony, Mr. Lazare rejects the**
91 **Company's suggested allocators for Accounts 383, 879, 902 and Accounts 912-916.**
92 **Please respond.**

93 **A.** Mr. Lazare suggests that the allocation of these accounts be the same as
94 that ordered by the Commission in the Company's last case. However, I don't think any
95 allocation should be set in stone; instead, we should always try to improve upon the work
96 performed in previous cases. The following describes the rationale behind the changes
97 that I made to the allocators for these accounts.

98 Account 383, House Regulators. In previous cases, the Company
99 performed studies of meter cost by class and allocated house regulators on this basis. In
100 this case, I requested further information as to what regulators are associated with each
101 meter, the cost of such regulators and the cost to install each type of regulator. The

102 allocation of this account based on detailed regulator specific data by class does a better
103 job of tracking costs associated with this account than does the previous use of meter
104 costs. However, Mr. Lazare recommends the continued use of less specific meter costs
105 as the allocator.

106 Account 879, Customer Installed Equipment. This is a general account for
107 installations of equipment on customers' premises; therefore, a general distribution plant
108 allocator was used. Based on a multitude of different types of activities associated with
109 this account, the use of a general distribution plant allocator is more appropriate than
110 Mr. Lazare's single services allocator.

111 Account 902, Meter Reading Expense. I would like to correct my rebuttal
112 testimony and note that Staff has allocated meter reading costs based on the number of
113 meters, not the cost of meters, and that the Staff's allocator and the Company's allocator
114 are the same for AmerenUE. However, AmerenCIPS does not yet use the automatic
115 meter reading ("AMR") technology and has meter readers to read meters. My suggested
116 allocators simply reflect the obvious fact that it takes longer for a meter reader to locate
117 and walk up to a meter in a large industrial plant than to read the meter of a house in a
118 subdivision. I have used a multiple of ten (10) houses as the equivalent of one industrial
119 plant based on the input from the Company's meter reading supervisor.

120 Accounts 912 – 916, Selling and Sales Expenses. These accounts include
121 the costs of promotional, demonstrating and selling activities, and such miscellaneous
122 sales activities not includable in other sales accounts. I have used the overall allocator of
123 Customer Service costs (Accounts 902 through 905). Mr. Lazare recommends an
124 approach based on class revenues.

125 **Q. Please comment upon Mr. Iannello's rebuttal testimony starting on**
126 **page 4, whereby he states that "I have agreed to allocate the cost of propane and**
127 **storage based on sales." Why are you providing additional testimony here?**

128 **A. I have agreed to allocate cost of propane and storage inventory as**
129 **Mr. Iannello states in his testimony. However, Staff witness Lazare has not incorporated**
130 **any of Mr. Iannello's recommendations, which have been accepted by the Company, in**
131 **his testimony. Therefore, I believe some explanation of the allocations is appropriate.**

132 **Q. How have you allocated Propane and Storage Plant?**

133 **A. I have allocated Propane Plant in accordance with weather normalized**
134 **sales by each class, except the interruptible class which is interrupted when Propane Plant**
135 **usage becomes necessary. I have allocated Storage Plant based upon weather normalized**
136 **sales, with a twenty-one percent (21%) allocation to transport customers based upon the**
137 **use of storage facilities by transport customers. The development of the twenty-one**
138 **percent (21%) allocator for transport customers is described in the surrebuttal testimony**
139 **of Company witness Dottie Anderson.**

140 **Q. How have you allocated Propane and Storage Plant Expense?**

141 **A. I have allocated Propane Plant and Storage Plant expense based on the**
142 **same allocation methodology as Propane Plant and Storage Plant.**

143 **Q. How have you allocated Propane and Natural Gas costs of working**
144 **gas in storage?**

145 **A. I have allocated Propane Gas costs in accordance with plant and the**
146 **demand portion of Propane Gas expenses on the basis of sales less interruptible sales.**

147 The cost of Natural Gas in storage is allocated on the basis of weather normalized sales,
148 with no allocation of such costs to transportation customers.

149 **Q. How did you allocate the costs associated with the administration and**
150 **billing (Administrative Charge) of transport customers?**

151 **A.** I have allocated these costs to all customers eligible for transportation, in
152 accordance with Mr. Iannello's suggestion in his direct testimony.

153 **Q. Concerning Mr. Galligan's proposed allocator for mains, do you have**
154 **any comment?**

155 **A.** Yes, I do. Mr. Galligan's 50/50 split of average and peak demands by cost
156 is not advocated in any rate design manual with which I am acquainted. I have already
157 referenced several renowned books on the subject and I do not believe these reference
158 such an allocation methodology either.

159 **Q. Have you revised your original class cost-of-service studies using the**
160 **revised jurisdictional cost of service studies provided by Company witness Thomas**
161 **Opich as part of his surrebuttal testimony?**

162 **A.** Yes, I have. I have prepared AmerenCIPS Exhibit No. 33.1 and
163 AmerenUE Exhibit No. 33.1 which indicate the results of the revised study for
164 AmerenCIPS and AmerenUE, respectively.

165 **Q. Does this conclude your surrebuttal testimony?**

166 **A.** Yes, it does.

AMERENCIPS

**ALLOCATED CLASS COST-OF-SERVICE BASED ON REVENUE REQUIREMENTS
TEST YEAR: 12 MONTHS ENDED JUNE 30, 2002**

TITLE: COST OF SERVICE SUMMARY

<u>LINE #</u>	<u>ACCOUNT #</u>	<u>ITEM</u>	<u>ALLOCATION BASIS</u>	<u>TOTAL ILLINOIS</u>	<u>RESIDNTL</u>	<u>GENERAL</u>	<u>LG. USE</u>
1							
2		<u>COST OF SERVICE SUMMARY</u>					
3							
4							
5		GAS OPERATING REVENUE					
6		Sale of Gas (Margin)	Calculated	\$68,314,374	\$45,788,492	\$14,999,101	\$7,526,781
7		Other Operating Revenues	Worksheet	<u>\$1,351,161</u>	<u>\$1,035,369</u>	<u>\$221,789</u>	<u>\$94,003</u>
8							
9		TOTAL GAS OPERATING REVENUES		\$69,665,534	\$46,823,861	\$15,220,890	\$7,620,784
10							
11		EXPENSES:					
12		Total Gas O&M Expenses	Worksheet	\$36,052,020	\$24,536,841	\$7,730,226	\$3,784,954
13		Depreciation Expense	Worksheet	7,358,167	4,920,839	1,630,595	806,733
14		Taxes Other than Income Tax	Worksheet	2,171,597	1,443,325	482,352	245,921
15							
16		INCOME TAXES	Worksheet	<u>7,520,180</u>	<u>4,971,931</u>	<u>1,679,199</u>	<u>869,050</u>
17							
18		NET UTILITY OPERATING INCOME		\$16,563,570	\$10,950,926	\$3,698,518	\$1,914,126
19							
20		RATE BASE	Worksheet	\$175,257,330	\$115,870,549	\$39,133,619	\$20,253,161
21							
22		RATE OF RETURN - REALIZED	Schedule	9.45	9.45	9.45	9.45
23							
24		INDEX OF RETURN		100	100.00	100.00	100.00

UNION ELECTRIC COMPANY

ALLOCATED CLASS COST-OF-SERVICE BASED ON REVENUE REQUIREMENTS

TEST YEAR: 12 MONTHS ENDED JUNE 30, 2002

TITLE: COST OF SERVICE SUMMARY

LINE #	ACCOUNT #	ITEM	ALLOCATION BASIS	TOTAL ILLINOIS	RESIDENTIAL	GENERAL	LG. USE	LG. USE - INT
1								
2		<u>COST OF SERVICE SUMMARY</u>						
3								
4								
5		GAS OPERATING REVENUE						
6		Sale of Gas (Margin)	Calculated	\$8,353,914	\$6,308,434	\$1,644,288	\$319,113	\$82,078
7		Other Operating Revenues	Worksheet	<u>\$174,329</u>	<u>\$132,003</u>	<u>\$33,907</u>	<u>\$6,654</u>	<u>\$1,765</u>
8								
9		TOTAL GAS OPERATING REVENUES		\$8,528,243	\$6,440,437	\$1,678,196	\$325,767	\$83,843
10								
11		EXPENSES:						
12		Total Gas O&M Expenses	Worksheet	\$5,115,836	\$3,862,684	\$1,005,448	\$195,735	\$51,969
13		Depreciation Expense	Worksheet	756,130	582,882	142,500	24,858	5,889
14		Taxes Other than Income Tax	Worksheet	167,848	126,852	32,633	6,702	1,662
15								
16		INCOME TAXES	Worksheet	<u>806,967</u>	<u>605,776</u>	<u>161,371</u>	<u>31,933</u>	<u>7,888</u>
17								
18		NET UTILITY OPERATING INCOME		\$1,681,462	\$1,262,243	\$336,245	\$66,538	\$16,436
19								
20		RATE BASE	Worksheet	\$16,765,995	\$12,585,931	\$3,352,725	\$663,458	\$163,881
21								
22		RATE OF RETURN - REALIZED	Schedule	10.03	10.03	10.03	10.03	10.03
23								
24		INDEX OF RETURN		100	100.00	100.00	100.00	100.00